

Message Text

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PAGE 01 LISBON 02697 141518Z

53

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAM-01

OMB-01 SAJ-01 COME-00 EB-07 LAB-04 SIL-01 TRSE-00

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P R 141431Z MAY 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 2778

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION NATO

DIA WASHDC

USCINCEUR VAIHINGEN GER

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E.O. 11652: N/A

TAGS: ELAB, ECON, PO

SUBJ: NEW GOVERNMENT WAGE POLICIES

REF: LISBON 2510 (PARA 7)

SUMMARY: GOP ON MAY 13 APPROVED EXPECTED DECREE RAISING
MINIMUM WAGE, FREEZING SALARIES, AND PLACING A MAXIMUM LIMIT
ON INCOME. SALARY FREEZE WILL AFFECT MIDDLE CLASS. MAXIMUM
INCOME LIMITATION WILL PROBABLY CAUSE INCREASED EXODUS OF PORTUGUESE
PROFESSIONAL AND MANGERIAL PERSONNEL. DECREE WILL BE
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PAGE 02 LISBON 02697 141518Z

DIFFICULT TO ENFORCE AND PROBABLY HAVE UNFORESEEN AND

UNWELCOME CONSEQUENCES. STRICT ENFORCEMENT WOULD MAKE
"ECONOMIC CRIMINALS" OF MANY IN MIDDLE CLASS. END SUMMARY

1. COUNCIL OF MINISTERS APPROVED ON MAY 13 A LONG-AWAITED
DECREE LAW REGULATING WAGES PAID BY PRIVATE SECTOR. DECREE
HAS THREE SEAPRATE PROVISIONS, EACH OF WHICH WILL HAVE
SUBSTANTIAL ECONOMIC AND POLITICAL IMPACT.

2. MINIMUM WAGE: DECREE RAISES LEGAL MINIMUM WAGE FOR NEARLY
ALL EMPLOYEES, EXCLUDING DOMESTICS AND AGRICULTURAL
EMPLOYEES, TO 4,000 ESCUDOS (\$160 DOLLARS) PER MONTH,
EFFECTIVE JUNE 1. (COMMENT: CURRENT LEGAL MINIMUM, DECREED
MAY 1974, ESTABLISHED MINIMUM WAGE OF 3,300 ESCUDOS (\$132
DOLLARS). THE NEW DECREE REPRESENTS AN INCREASE OF 21 PER
CENT, APPROXIMATELY THE ESTIMATED RATE OF INFLATION
DURING THE PERIOD. SOME FIRMS, PARTICULARLY IN TEXTILE
SECTOR, ARE PAYING WAGES BELOW CURRENT LEGAL MINIMUM).

3. INCOME FREEZE: DECREE FREEZES THE INCOME OF PERSONS
EARNING ABOVE 12,000 ESCUDOS (\$480 DOLLARS) PER MONTH UNTIL
DECEMBER 31, 1975. (COMMENT: PERSONS EARNING MORE THAN
\$5,760 PER YEAR CONSEQUENTLY CANNOT EXPECT ADDITIONAL SALARY
INCREASED TO OFFSET INFLATION.)

4. MAXIMUM WAGE: DECREE ESTABLISHES A MAXIMUM INCOME LEVEL OF
48,900 ESCUDOS (\$1,956 DOLLARS) PER MONTH WITH THE
PROVISION THAT AFTER TAXES THIS SHOULD APPROXIMATE
\$1,400 DOLLARS MONTHLY OR \$16,800 ANNUALLY. (COMMENT:
MANAGERS OF THE FOREIGN BUSINESS COMMUNITY ASSUME DECREE
WILL AFFECT THEM. THEY ANTICIPATE THAT THE MAXIMUM INCOME
LIMITATION WILL CAUSE MANY INTERNATIONAL FIRMS OPERATING
LOCALLY TO SEEK ALTERNATIVE METHODS OF COMPENSATING PERSONNEL,
INCLUDING BENEFITS PAID BOTH WITHIN AND OUTSIDE PORTUGAL.
MORE IMPORTANTLY, LIMITATION OF MAXIMUM INCOME WILL
ACCELERATE THE PRESENT ECONOMIC DECLINE AS INCREASING NUMBERS
OF MANGERIAL AND PROFESSIONAL PERSONNEL LEAVE PORTUGAL.
FROM INFORMATION AVAILABLE LOCALLY, IT IS BELIEVED THAT 1,000
TO 1,500 QUALIFIED PORTUGUESE HAVE ALREADY LEFT. THE
NEW DECREE WILL ALMOST CERTAINLY INCREASE THE FLOW).

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PAGE 03 LISBON 02697 141518Z

5. MILITARY ATTACHES HAD OPPORTUNITY TO DISCUSS ECONOMIC
MEASURE MAY 13 WITH REVOLUTIONARY COUNCIL MEMBERS ARMY
CAPTAINS PINTO SOARES AND VASCO LOURENCO. THE TWO PORTUGUESE
OFFICIALS EMPHASIZED THE PURPOSE OF THE DECREE IS TO REDUCE
THE ECONOMIC POWER OF THE OLIGARCHY AND IMPROVE THE LOT OF
THE WORKING CLASS (REPORTED SEPTTEL).

6. OVERALL COMMENT: WHILE THE GOP HAS MADE CLEAR ITS

INTENT TO REDUCE THE EXAGGERATED DISPARITIES IN INCOME PREVALENT IN PORTUGAL PRIOR TO THE 1974 REVOLUTION, IT IS QUESTIONABLE WHETHER IT HAS FOUND THE MOST EFFECTIVE METHOD OF ACCOMPLISHING ITS OBJECTIVE. THERE WILL UNDOUBTEDLY BE ATTEMPTS AT EVASION OF THE INCOME LIMITATION BY PROFESSIONALS AND OTHERS WHO DO NOT HAVE A FIXED SALARY INCOME. LIKEWISE, THE EXACT DEFINITION OF THE TERM "REMUNERATION" USED IN THE DECREE REMAINS TO BE DETERMINED, E.G., HOW IT WILL AFFECT INVESTMENT INCOME, BUSINESS PROFITS, COMPENSATION FOR NATIONALIZED PROPERTIES (IF ANY), AND COMPANY-PAID FRINGE BENEFITS SUCH AS LEASED AUTOMOBILES. EMBASSY UNDERSTANDS "REMUNERATION" INCLUDES INCOME FROM ALL SOURCES. IN SHORT, THE GOP HAS PASSED ANOTHER DECREE WHICH WILL BE DIFFICULT TO ENFORCE AND WHICH WILL PROBABLY HAVE UNFORESEEN AND UNWELCOME CONSEQUENCES.

7. THERE WILL OBVIOUSLY BE MANY PERSONS IN VIOLATION OF THE SALARY FREEZE AND MAXIMUM INCOME PROVISIONS OF THE NEW DECREE. ATTEMPTS BY POLITICALLY-MOTIVATED WORKERS TO INSURE STRICT ENFORCEMENT OF THE DECREE WOULD INCREASINGLY DIVIDE PORTUGUESE SOCIETY ALONG CLASS LINES. MANY MIDDLE-CLASS BUSINESS AND PROFESSIONAL PEOPLE WOULD BE SUBJECT TO CHARGES OF BEING "ECONOMIC CRIMINALS" IF THE GOP SHOULD DECIDE TO IMPLEMENT THE RIGOROUS CONTROLS WHICH WOULD BE NECESSARY TO ACHIEVE FULL COMPLIANCE WITH THE NEW DECREE LAW.
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